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C O N F I D E N T I A L SECTION 01 OF 02 CONAKRY 001243

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TREASURY FOR OFFICE OF AFRICAN NATIONS

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TAGS: [PGOV](#) [EPET](#) [GV](#)
SUBJECT: GROWTH OF RESOURCE NATIONALISM IN GUINEA

REF: STATE 150999

Classified By: Economic Officer Kim Jordan for Reasons 1.4 (b) and (d).

11. (C) SUMMARY. The information and analysis provided herein is in response to reftel request regarding resource nationalism in Guinea. END SUMMARY.

12. (C) Over the last year, resource nationalism has become increasingly evident in Guinea since the country's new consensus government declared that it would review all natural resource contracts as part of its reform agenda. The new government, headed by Prime Minister Lansana Kouyate, stressed that the contracts would be reviewed in order to determine overall fairness, to the parties. Subsequently, the offshore oil exploration contract of U.S. company Hyperdynamics, covering all of the coastal waters off Guinea, was included in this review.

13. (C) The reassessment of mining and oil contracts was at first downplayed by the government as nothing more than a cursory review of contractual terms. However, after several weeks the government began calling the existing contracts unfair for Guinea and argued for significant contractual revisions.,

14. (C) The Government of Guinea set up individual committees which were assigned to conduct a thorough examination of each contract. While most of Guinea's mining company contracts were not affected by the inspection, the Russian bauxite miner, Rusal, and U.S. oil explorer Hyperdynamics, were both designated as having contracts requiring renegotiation. The basis for the claim against Rusal was that when it purchased the business it did not follow the requirements of the Guinea privatization law. As for Hyperdynamics, the Government said that its contract was too broad as it covered all of Guinea's offshore, while these type of contracts normally are parceled out geographically to several different companies. In support of this position, maps of offshore oil exploration parcels for neighboring Guinea-Bissau and Liberia were published in local newspapers. These maps demonstrated that only Guinea had sold all of its exploration rights in a single contract.

15. (SBU) The government has banned all advertising by Hyperdynamics because the company has refused to enter into renegotiations. Rusal, on the other hand, is cooperating with the government. The principle officers of Hyperdynamics have appealed to the Guinean President for relief, whose decision remains pending.

16. (SBU) It should also be noted that bauxite companies have been mining in Guinea for decades without serious problems. In addition, multi-nationals, such as U.S. company Alcoa, conduct business here, and were not affected by the contract reviews. They cooperated and completed the process without

renegotiation.

¶7. (SBU) At an October 31, 2007 cabinet meeting, the government invited all companies that had not yet entered into negotiations to come to the table to discuss the argument for and against renegotiation. The government also restated that it will be firm in its defense of national interests, but remain open to negotiating mutually beneficial terms. While not explicitly naming Hyperdynamics, the U.S. company is the only company refusing to negotiate with the government.

¶8. (SBU) Aside from the above mentioned demand for renegotiations, Embassy is not aware of any other demands for such actions.

¶9. (C) The Government of Guinea appears to be the main beneficiary of the renegotiations. It currently has an annual budget deficit in the neighborhood of \$300 million, representing about 45% of its gross national revenues, so increasing income from royalties or taxes is a priority. Efforts to renegotiate are clearly fueled by the government's desperate need for additional funds to improve internal/external budget balances, or required for an IMF program. However, given the high level of corruption in Guinea, it is possible that unknown individuals will be able to access any new revenue streams.

¶10. (C) With respect to the Hyperdynamics contract, there are unconfirmed rumors that Brazilian or other companies, possibly Chinese, are behind the efforts to revise the contract so that they can then participate in the offshore oil and gas exploration.

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¶11. (C) Post recommends that a consistent message be broadcast to all levels of Guinea's government advocating for respect for the rule of law.
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